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Financial Markets

Irving Trust

Irving Trust Company
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Economic Research & Planning Division

Friday (Noon) Oct. 31, 1980

The securities markets were highly thin and nervous this week, reflecting the recent rise in the Federal funds rate, the virtual absence of investor demand for new issues, and the approach of next week's quarterly Treasury refunding. The uncertain election outcome also undoubtedly added to market jitters. In this setting, many interest rates rose further to levels at or only slightly below the highs recorded in the March-April period this year.

It is important to keep some perspective on the market's performance, however. First, the Fed has been in the position of having to arrange large amounts of repurchase agreements (RPs) in order to implement what is in large part a seasonal addition of reserves. The Fed's Open Market Desk probably decided to defer a substantial outright purchase of Treasury securities until the refunding next week. The immediate consequence of that decision is the need to enter the market repeatedly to arrange large amounts of RPs. Herein lies the rub: With the market nervous and dealer positions generally light, relatively little collateral has been available for such transactions, and thus at times the Fed may have had to settle for adding less reserves than planned. That would have put the funds market under pressure. If so, then this technical source of firmness may well abate as early as late next week.

On the whole, there is no evidence that the Fed changed its policy stance at the most recent FOMC meeting, and we continue to view the backup in rates as basically a logical response to recent rapid money growth, compounded by the technical operating problem noted above. Some market participants have speculated that the Fed might be saving an increase in the discount rate for after the election. The current wide spread of the funds rate over the discount rate certainly lends credence to this view, but on balance we remain skeptical. First, a portion of the spread probably is a technical distortion, of which the Fed would be only too well aware. Second, the Fed does not seem to be playing politics. Those commentators who as recently as a couple of months ago were arguing that the monetary targets would be set aside temporarily, as the Fed kept rates down to pave the way for a Carter reelection effort, must surely agree now that the Fed has been keeping its commitment to the targets. The best guess, then, is that the Fed will probably wait awhile to assess the impact of recent rate increases on monetary growth before undertaking any new aggressive initiatives.

On balance the prospect seems favorable that the funds rate may work down next week from its current lofty level.

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

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Market Yields

	10/31/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(Noon)		
Short-term loans to substantial depositors			
with highest credit rating	14.50%	14.00%	15.25%
Effective since	10/29/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	12.00
Federal Funds	13.88	13.25	14.88
Repurchase Agreements	12.75	12.50	12.00
U.S. Treasury Issues			
Bills			
3 months	12.54	12.35	12.50
6 months	12.65	12.70	13.03
1 year	12.20	12.74	12.90
Coupons			
2 years	13.05	12.36	12.10
4 years	12.85	12.25	11.45
7 years	12.40	12.04	10.90
10 years	12.35	11.75	10.80
Long Bond	12.08	11.68	10.40
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.90	13.05	14.35
3 months	14.40	13.20	14.60
6 months	14.40	13.25	14.65
1 year	14.40	12.85	14.30
Banker's Acceptances			
1 month	13.70	12.90	14.25
3 months	14.40	13.15	14.70
6 months	14.50	13.44	14.70
Eurodollar Deposits			
1 month	14.50	13.38	15.00
2 months	15.00	13.81	15.63
3 months	15.06	13.88	15.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	13.25	10.00	13.50
1 month	13.00	12.50	14.13
3 months	12.50	12.00	12.88
Bank Holding Companies			
1 month	13.38	12.50	14.25
Dealer Placed:			
3 months	13.38	12.25	14.40
New AA Corporate Utility Bond	14.13	13.63	11.45
Tax Exempt			
6 month Project Notes	6.25	5.90	6.30
1 year AAA Bond	6.15	6.00	NA
5 year AAA Bond	7.00	6.50	NA
20 year AAA Bond	8.00	8.00	6.70

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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